Before the

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TENNESSEE REGULATORY AUTHORITY

IN RE:	)	
	)	
PETITION OF PIEDMONT NATURAL GAS COMPANY, INC., for an Adjustment to Its Rates, Approval of Changes to Its Rate Design, Amortization of Certain Deferred Assets, Approval of New Depreciation Rates, Approval of Revised Tariffs and Service Regulations, and Approval of a New Energy Efficiency Program and GTI Funding	)))))))))	DOCKET NO. 11-00144

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DIRECT TESTIMONY
OF
DAVE PETERS

****

December 19, 2011

INTRODUCTION

Q. Please state your name for the record.

A. My name is Dave Peters.

Q. By whom are you employed and what is your position?

A. I am employed by the Consumer Advocate and Protection Division ("CAPD") in the Office of the Attorney General for the state of Tennessee ("Office") as a Regulatory Analyst. I have been employed by the CAPD since 2008.

Q. How long have you been employed as a financial professional?

A. I have been employed as a finance professional in the private and public sector for approximately 27 years. Before my current employment with the Office, I was employed by Dell Computers as a site Controller in the Dell Fulfillment and Logistics organization. Formerly, I was employed with Nortel Networks in a variety of financial positions, the last being as a program manager in the Telecommuting program. My responsibilities included budgeting, forecasting, internal controls, monthly close, balance sheet reviews and extensive financial reporting to management.

Q. What is your educational background and what degrees do you hold?

A. I have a Bachelors degree in Business Administration from Tennessee Technological University with a major in Accounting and a Masters degree in Business Administration from Belmont University. I am also a Tennessee Certified Public Accountant.

Q. Would you briefly describe your responsibilities as a Regulatory Analyst with the CAPD?

A. Exercising my professional judgment, I prepare testimony and financial exhibits in rate proceedings as an employee with the CAPD. Additionally, I review tariff filings by Tennessee public utilities, which are subject to the jurisdiction of the Tennessee Regulatory Authority ("TRA").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to represent the forecasted financial exhibits prepared by the CAPD ("Exhibits of CAPD") and provide my exhibit of work papers ("work papers of CAPD") for Operation and Maintenance expenses, Depreciation Expense, Taxes Other Than Income, Income Taxes, and Rate Base for Piedmont Natural Gas Company ("Piedmont") for the attrition year ending February 28, 2013.

SUMMARY OF RESULTS

Q. Please summarize the results of the CAPD forecast of Piedmont's earnings for the attrition year.

A. The attrition year in this case is the twelve months ending February 28, 2013. For the attrition year, Piedmont asked for a $16.713 million rate increase (8.9%) whereas the CAPD's forecasted results show that customer rates should actually be increased by no more than $9.863 million (5.3%), which is a difference of $6.849 million between Piedmont's forecast and CAPD's forecast. The $6.849 million difference is due to the following areas of disagreement between Piedmont and the CAPD: (1) The CAPD believes that Piedmont will collect about $.534 million more in operating revenue than the estimates included in Piedmont's rate increase petition; (2) the CAPD is projecting about $2.8 million less in operation and maintenance expenses than the amount projected by Piedmont; (3) the CAPD's calculation of depreciation expense is approximately $65,000 less than the depreciation expense projected by Piedmont; (4) the CAPD forecasts approximately $260,000 more in "taxes other than income taxes" than the taxes projected by Piedmont; (5) the CAPD computes about $145,000 more in excise taxes than Piedmont's tax computations; (6) the amount of income taxes projected by Piedmont is approximately $1 million less than the CAPD calculated income taxes; (7) Piedmont's working capital is approximately $3.5 million less than the CAPD amount of $30.7 million; and (8) the amount of Accumulated Deferred Income Taxes is approximately $6.5 million higher for the CAPD than Piedmont's calculations;

Accordingly, the CAPD's position is that Piedmont has requested customer rates generating over $6.8 million more than the company actually needs to meet its expenses and provide a fair return to its shareholders while providing quality gas services to Piedmont's customers. Although there are many underlying details supporting the CAPD's position, all of which are discussed below and shown in the testimony, work papers, and exhibits of the CAPD's witnesses, the eight areas discussed above serve as an overview of the primary areas of dispute between Piedmont and the CAPD in this case.

RATEMAKING THEORY AND PRACTICE

Q. What is a public utility?

A. In the context of this case, a public utility is a business formed as a shareholder-owned corporation. Even though the public utility in this case is a for profit corporation, it is also important to note that this public utility is:

> an organization that has been designated by law as
> a business affected with a significant public interest,

> and that also possesses all of the following characteristics: (1) The business is essentially free from direct competition, i.e., it operates in a monopolistic environment; (2) The business is required by law to charge rates for its services that are reasonable and not unjustly discriminatory; (3) The business is allowed to earn (but not guaranteed) a "reasonable" profit; and (4) The business is obligated to provide adequate service to its customers, on demand.[1]

Q. Does Piedmont possess these public utility characteristics?

A. Yes. Piedmont is a shareholder-owned public utility that has been granted the advantage of operating in a monopolistic environment in exchange for special obligations, namely, the requirement to provide adequate service to all customers at rates that are just, reasonable, and non-discriminatory.

Q. From a regulated ratemaking perspective, what is the TRA called upon to do in this proceeding?

A. In a rate case such as this one, the TRA is asked to establish the amount of revenues that the utility should collect in order to cover its reasonable and necessary expenses and to reasonably compensate the utility's investors for their investment in the plant and equipment necessary to provide

[1] *Accounting for Public Utilities,* Hahne and Aliff §1.01.

utility service to the public. The following ratemaking formula can be used to express this concept:

Revenue Requirement = (Rate Base X Rate of Return) + Operations and Maintenance Expense + Depreciation Expense + Taxes.

In this equation, "Rate Base" is essentially the plant and equipment paid for by the investors in the utility. The "Rate of Return" is comprised of two major components: (1) the "Cost of Debt," which constitutes the interest rate on borrowed money and (2) the "Return on Shareholders' Equity" ("ROE"), which is the rate of compensation that flows to the owners of the utility for their investment. "Operations and Maintenance Expense" is the costs of operating the utility day-to-day, such as payroll, employee benefits, rent, office supplies, postage and billing costs, etc. "Depreciation Expense" is the systematic recovery of the cost of the plant and equipment over their useful lives. "Taxes" are the business taxes owed by the utility to federal, state, and municipal governments, such as income taxes, payroll taxes, property taxes, and franchise taxes. In order to arrive at the appropriate amount for each component of the ratemaking formula, the TRA should consider the expert witness testimony of economists, accountants, and other subject matter experts. These experts usually calculate the amount of each component of the ratemaking formula for the "Attrition Year." In making their "Attrition Year" forecast, ratemaking experts often consider "Test Year" data.

Q. Please explain the difference between a "Test Year" and an "Attrition Year."

A. A "test year" is a measure of a utility's financial operations and investment over a specific twelve month period. It is the "raw material" for developing an attrition year measure of the utility's financial operations and investment (that is, the utility's Rate Base, Operations and Maintenance Expense, Depreciation Expense, and Taxes). Therefore, the selection of the test year is quite important:

> The selection of the timing of the test year may be the most significant single factor in the rate-making process. The more outdated the test year levels of operations, the more critical is the need for significant restatement to produce representative levels of future conditions.[2]

An "attrition year," also known as a forecast period, is the "finished product" and is to be representative of the period for any rate adjustment. The attrition year can also be viewed as the first year during which the TRA's rate order will be applied.

[2] *Accounting for Public Utilities,* Hahne and Aliff §7.03.

In this docket, Piedmont's filing used a test year ended May 2010 and an attrition year ending February 2013.

Q. Please explain how the TRA should calculate any adjustment in customer rates to be applied during the attrition year.

A. Once the TRA arrives at the appropriate Revenue Requirement for the attrition year (as described above), it must then determine whether a rate adjustment is needed. If the Revenue Requirement is greater than the amount of operating revenue forecasted for the attrition year at present customer rates, then a rate increase is required. However, if the Revenue Requirement is less than the amount of operation revenue forecasted for the attrition year at present customer rates, then a rate decrease is required.

In determining whether a rate increase or rate decrease is warranted, the TRA should again consider the testimony of the parties' expert witnesses. In addition to forecasting the Revenue Requirement for the attrition year, these experts also forecast the amount of operating revenue that the utility is expected to collect during the attrition year at the current customer rates set forth in the utility's tariff.

Q. Please summarize the reasons why the CAPD is projecting $.534 million more in operating revenues than Piedmont.

A. Operating Revenues will be addressed in greater detail by CAPD witness Hal Novak.

Q. Please summarize why the CAPD is projecting about $2.8 million less in operation and maintenance expenses than Piedmont.

A. The $2.8 million difference in operation and maintenance expenses between the CAPD and Piedmont is due to the CAPD's projecting: (1) about $.948 million due to a lower growth rate; (2) lower incentive pay of about $1.41 million; (3) exclusion of energy programs is $.650 million as proposed by Piedmont; (4) and CAPD is $.243 million higher due to a difference in amounts transferred to plant under construction.

The CAPD growth rate used an annual Gross Domestic Product (GDP) rate of 2.095%. Additionally, the CAPD adopted an annual customer growth rate of .97%. The combined growth rates are compounded through the attrition year to 4.546%. Piedmont primarily used a growth rate of 4.951%. However, the CAPD adopted the uncollectible expense from the test period of approximately $58 thousand while Piedmont increased their uncollectible expense to approximately $313 thousand.

Q. Please explain the differences in incentive compensation.

A. Incentive pay makes up $1.4 million of the difference in the Administrative and General (A&G) Expense category. The CAPD has excluded all incentive pay tied to Earnings Per Share (EPS).

Piedmont has included $2.445 million of incentive plan compensation in its results of Operations for the year ended February 28, 2013. Simply put, Incentive Plans are financial awards to certain officers and employees of Piedmont. In large part, the financial awards are based on the earnings of the company. Piedmont has disclosed three separate Incentive Plans: (1) MVP; (2) STIP; and (3) LTIP.

The MVP Plan

The MVP plan forecasted by the company compensating employees by $901 thousand[3] during the year ended February 28, 2013. The MVP plan is 40% based on EPS and is 60% based on non-financial performance measures[4]. In Tennessee Regulatory Authority ("TRA" or "Authority") Docket No. 96-00977[5], the TRA allowed 50% of certain incentive plan costs to be charged to ratepayers and 50% to be charged to stockholders. In reaching their decision, the TRA held that both the Nashville Gas stockholders and the ratepayers benefited

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[3] TRA MFR #25, O&M Summary Schedule.

[4] Piedmont Natural Gas 2011 Proxy Statement dated January 14, 2011, page 43.

[5] *In Re Nashville Gas Company,* 175 P.U.R. 4th 347 (February 19, 1997).

from increased performance and efficiencies from individual employees and the cost should be borne by both parties accordingly.[6] Based on this precedent, the cost of any Incentive Plan that does not benefit the ratepayers should be borne entirely by the shareholders.

The current MVP plan serves the interests of both ratepayers and stockholders. Therefore, relying on the past precedent set in Docket No. 96-00977, the Consumer Advocate urges the TRA to allow only 60% of MVP compensation to be charged to ratepayers. This amount would calculate to be approximately $541 thousand for the attrition period year ending February 28, 2013.

The STIP Plan

The STIP is forecast to be approximately $550 thousand and is solely based on EPS[7]. Thus, we are excluding 100% of it for ratemaking purposes.

The LTIP Plan

The LTIP is forecast to be approximately $993 thousand and we are excluding 50% of this plan because it's 50% based on EPS[8]. The CAPD forecasted number for the LTIP is

[6] *Id.*
[7] Piedmont Natural Gas 2011 Proxy Statement dated January 14, 2011, page 45.

[8] Piedmont Natural Gas 2011 Proxy Statement dated January 14, 2011, page 46.

approximately $497 thousand. Because there is no mechanism under the LTIP for Piedmont's ratepayers to share in these increased earnings, Piedmont's employees and stockholders will reap *all* of the financial rewards of these higher earnings.

As cited above in TRA Docket No. 96-00977, because the current LTIP rewards only employees and stockholders, all LTIP costs related to EPS should be disallowed. Therefore, the CAPD, based on past precedent, urges the disallowance of 50% of the proposed LTIP compensation.

Q. Please summarize the incentive plan compensation differences.

A. Since ratepayers are the sole source of Piedmont's regulated earnings, the MVP, STIP, and LTIP plans are circular ones whose success is built into this docket (i.e. higher regulated earnings create more incentive pay). Basically, Piedmont has proposed rewarding its employees and stockholders for merely increasing natural gas rates charged to ratepayers. Of note, utility incentive plans have been recently limited or disallowed in Louisiana, Kentucky, Idaho, Connecticut, Illinois and Oklahoma.[9]

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[9] *Entergy Louisiana, Inc., Ex Parte*, 2005 WL 372935 (Ma7 25, 2005); *Commonwealth Edison Co. v. Illinois Commerce Commission*, 2009 WL 3048420 (September 17, 2009); *In re Public Service Co. of Oklahoma*, 270 P.U.R. 4th 205 (January 14, 2009); *In re United Water Idaho Inc.*, 2005 WL 3091674 (September 20, 2005); and *In re Kentucky-American Water Co.*, 2005 WL 1080806 (March 30, 2005).

Specifically, in *Entergy Louisiana, Inc., Ex Parte*, 2005 WL 372935 (May 25, 2005), the Commission disallowed the recovery of Entergy's Long Term Incentive Compensation Plan, stating that the bonuses were unrelated to any benefits to the ratepayer. The Commission reasoned that shareholders, and not customers, should bear the cost of the incentive payments because such bonuses were not directly linked to matters such as rate stability, service quality, outage reductions, and minimizing length of outages, reductions in numbers of complaints and other such rate and service-related matters.[10]

The Illinois Court of Appeals also recently disallowed the portion of the incentive program that attributes benefits solely to shareholders, specifically the portion tied to "Earnings Per Share", stating, "the very term earnings per share provided a connotation of benefits for shareholders, rather than for ratepayers."[11]

Similarly, the Oklahoma Commission also disallowed the costs of long-term incentive compensation programs that result in payments based on financial goals that benefit shareholders alone.[12]

Following this trend in precedent, there is no reasonable basis to charge the full cost of the MVP, STIP and the LTIP

[10] *Entergy Louisiana, Inc., Ex Parte*, 2005 WL 372935 (Ma7 25, 2005).
[11] *Commonwealth Edison Co. v. Illinois Commerce Commission*, 2009 WL 3048420 (September 17, 2009).
[12] *In re Public Service Co. of Oklahoma*, 270 P.U.R. 4th 205 (January 14, 2009).

plans to ratepayers, because most of the benefits of the programs will accrue to Piedmont's employees and shareholders and all of the proposed program's burden will be charged directly to ratepayers. As a result, these amounts have been excluded from the CAPD calculations and should be borne solely by the beneficiaries of the plan, Piedmont's shareholders.

If Piedmont's employees are successful in increasing the Company's earnings, even to the point of earning above the authorized rate of return set by the TRA, Piedmont will reward its employees for this effort through the MVP, STIP and the LTIP. In such a case, ratepayers would not only be unreasonably burdened by the over-earnings, but under Piedmont's proposal, they also would have to pay an "over earnings surcharge" in the form of the LTIP and OIP. The Consumer Advocate does not object if Piedmont wants to reward it's employees for increasing its earnings from regulated operations; however, the cost of these rewards should be charged to those that benefit from the MVP, STIP, & the LTIP – the Company's shareholders – not the ratepayers. In essence, Piedmont's plan requires ratepayers to pay bonuses to the Company's employees for collecting windfall profits for the shareholders. It is not reasonable to ask ratepayers to pay the costs of such a plan. The major amount of bonuses paid in this case turns <u>solely</u> on the Company's profits (as opposed to service quality benchmarks, etc.).

Therefore, in accordance with the TRA's established precedent, Piedmont's ratepayers should not have to pay for the $1.4 million of the MVP, STIP, and the LTIP incentive plans designed to benefit <u>only</u> the shareholders. The Consumer Advocate urges the TRA to disallow the entire costs of the STIP, 50% of the LTIP incentive plan, and allow only 60% of the MVP incentive plan costs to be charged to ratepayers in this case.

Additionally, the CAPD is disallowing $650,000 of Administrative and General Expense due to the utilization of energy efficiency programs. Mr. Hal Novak will discuss this issue in greater depth in his testimony. Finally, the CAPD net capitalization percentages for Administrative and General Expenses and Payroll offsets the overall $3.0 million decrease by approximately ($243 thousand).

Q. Please summarize why the CAPD is projecting about $65,000 less in depreciation expenses than the amount projected by Piedmont.

A. This difference in the parties' position on depreciation expense is primarily attributable to one reason. That reason is the CAPD's policy of taking current month's depreciation expense based on the prior month's balance of the fixed asset accounts. This differs from the Piedmont approach in that Piedmont calculates depreciation expense from the ending balance of the current month of the balance sheet fixed asset accounts. The $65,000 difference is the cumulative amount from this change in methodology for all of the fixed asset accounts on a monthly basis for the attrition period.

Q. **Please explain why the CAPD's forecast of taxes other than income taxes is about $263,000 higher than Piedmont's other tax calculations.**

A. This difference is primarily due to the CAPD's computation of higher property taxes in the amount of $252,000. Piedmont is adding significant plant additions from the end of the test year to the end of the attrition year.

Q. **Please explain why the CAPD's forecast of income taxes is about $1.1 million higher than Piedmont's income tax calculation.**

A. This $1.1 million difference in income taxes is due mainly to the CAPD's application of different income tax rates. The CAPD computed state and federal income taxes using the statutory tax rates found in the applicable tax codes. Accordingly, the CAPD multiplied forecasted taxable income by the 6.5% state statutory income tax rate to arrive at state income taxes and by the 35% federal statutory income tax rate to arrive at federal income taxes. On the other hand, Piedmont used a rate much higher than the statutory tax rate – a 6.8% tax rate to compute state income taxes. However, both financial and regulatory accounting principles support the CAPD's use of the statutory income tax rates; furthermore, the TRA also uses the statutory income tax rates for establishing customer utility rates and, in fact, used the statutory income tax rates to set Piedmont's customer rates in their last rate case (TRA Docket #03-00313).

Q. Please summarize the $3.5 million difference in revenue requirements attributable to the CAPD's computation of working capital for Piedmont.

A. Piedmont shows working capital from Tennessee Operations of $27.2 million and the CAPD shows a working capital balance of $30.7 million. This difference is due to a formula error in Piedmont's response to data request MFR #25, adjustment #33. Piedmont's working capital formula fails to include row 14 (Requirements for Lead/Lag) which has attrition period working capital of $3,521,418.00.

Q. Please explain the $6.5 million difference in Accumulated Deferred Income Taxes ("ADIT").

A. Piedmont's petition included an end of period ADIT balance for the attrition year. The CAPD adopted a proper 13 month average of ADIT for the attrition year resulting in a $6.5 million difference.

Q. Please summarize the comparison of capital structures and cost of capital in this docket using the CAPD's forecast.

A. As previously stated, the CAPD's cost of capital results in a decrease of $5.3 million in the tariff proposed by Piedmont. The $5.3 million difference is due to the use of a 9.5% Return on Equity (ROE) as advocated by the CAPD compared to an 11.25% return on ROE in Piedmont's petition. CAPD witness Dr. Chris Klein discusses the difference in Cost of Capital in his direct testimony.

RATE DESIGN

Q. Please discuss Piedmont's proposed rate design.

A. CAPD witness Mr. Hal Novak will discuss in his direct testimony his recommendations for rate design in Piedmont's proposed rate increase.

Q. Does this conclude your testimony?

A. Yes, it does.

DAVID W. PETERS CPA/MBA

7397 Riverfront Drive • Nashville, TN 37221

Messages (H) **(615) 662-3789 (C) (615) 480-7093 petersdw1@aol.com**

SKILLS SUMMARY

Results-driven accounting/finance manager with multiple years of increasing responsibilities. Adept at providing management with documented solutions that add value to business. Broad areas of expertise in budgeting/forecasting, project management, consolidations, inventory control, internal controls and vendor/supplier management. Technical skills include all Microsoft products, Oracle 11i and Hyperion Essbase.

PROFESSIONAL EXPERIENCE

STATE OF TENNESSEE
Office of the Attorney General

Financial Regulatory Analyst, Consumer Advocate and Protection Division **2008-Present**

Responsible for performing financial reviews of public utilities for purposes of proposed rate increases. In this capacity, act as consumer advocate for Tennessee rate payers in these hearings before the Tennessee Regulatory Authority (TRA). Duties include extensive use of Excel and PowerPoint in preparing workpapers for public hearings.

- Perform detailed financial analysis and review of utilities financial statements.
- Write testimony for public hearings at the TRA and do actual testifying at these hearings

DELL INC. Nashville, TN
Global Computer Manufacturer – Revenues approx. $60B 2007

Senior Financial Consultant, North America Fulfillment Centers **2004-2008**

Responsible for all Financial Planning & Analysis for Dell Inc. Merge and Fulfillment Centers (Reno, NV Austin, TX, Nashville, TN and Cincinnati, OH have managed all sites at various times. Duties include monthly close, quarterly forecasts, balance sheet reviews and all control testing of operations on a quarterly or semi-annual basis).

- Managed startup of small package fulfillment center in Cincinnati (428K square feet and approximately 600 employees).
- Oversaw audit and SOX testing for Dell's 3rd party S&P hardware and software businesses.
- Implemented weekly operational scorecard for operations partners that shows all metrics to pro-actively manage the business (volumes, cost per order, direct labor statistics, inventory control).
- Extensive training experience with financial analysts across Dell Inc. North America.
- Key member of steering committee that implemented consistent business controls testing and SOX testing across Dell Inc.

OMAN-GIBSON ASSOCIATES LLC Nashville, TN
Health Care Facility Development, Construction and Management Company – privately held

Director of Facilities Management and Lease Administration **2002 - 2004**
Responsible for developing and overseeing a 24/7 call center providing Facilities Management and Lease Administration to 200+ locations (1.5M square feet) in 15 states. Duties include supervising eight employees and overall management of a turn-key operation that handled over 3,000 work orders annually and utilizes 3,000 suppliers.

- Managed project launch involving contract negotiations, call center and database development.
- Oversaw audit of 200+ leases and subsequent integration into new Lease Administration software.
- Maintained 93% satisfaction level with client regarding call center operations.
- Provided client with comprehensive monthly metrics package, thus enabling client to reallocate budget dollars effectively to areas in facilities that needed additional maintenance work.

NORTEL NETWORKS INC., Nashville, TN
Global Telecommunications and Internet related networking supplier -$17.5B revenues 2001

Business/Program Manager, Teleworking Solutions **1992 - 2002**
Responsible for developing Nortel Networks original Telecommuting Program that resulted in audited real estate savings of $20M+ annually. In this role, assumed all aspects of financial business operations as well as developing logistics for 20K+ telecommuters.

- Developed sensitivity analysis pricing model for internal program budget issues.
- Implemented inventory/supply chain for all new customer equipment requirements.
- Completed and revised $30M Telecommuting/Remote Access budget; – responsible for all financial aspects of internal business.
- Designed business case model to track costs versus savings of Telecommuting Program.
- Conducted financial analysis relating to all new product/technology introductions for program.

Held various responsible positions such as Accounting Supervisor, Headquarters Control, Consolidations, Fixed Assets and Royalty Accounting at Nortel Networks **Prior to 1992**

EDUCATION & PROFESSIONAL ACCREDITATION

Jack Massey Graduate School of Business, Belmont University, (Nashville, Tennessee)
Masters of Business Administration (1995, 3.4 GPA)
Tennessee Technological University, (Cookeville, Tennessee)
Bachelor of Science, Business (1983)
Certified Public Accountant, State of Tennessee (License 15299 Active Status)

Dockets- Testimony

TRA #09-00183 Chattanooga Gas Company
Direct Testimony: http://www.state.tn.us/tra/orders/2009/0900183bp.pdf

TRA #09-00056 Cartwright Creek
Direct Testimony: http://www.state.tn.us/tra/orders/2009/0900056t.pdf

TRA #09-00034 Lynwood Utilities
Direct Testimony: http://www.state.tn.us/tra/orders/2009/0900034l.pdf

TRA #08-00197 Atmos Energy Corporation
Direct Testimony: http://www.state.tn.us/tra/orders/2008/0800197aa.pdf

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EXHIBITS
OF
DAVE PETERS

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December 6, 2011

TRA Docket #11-00144
Consumer Advocate Exhibit
Index

Piedmont Natural Gas Company 12/6/2011

Index to Schedules

For the 12 Months Ending February 28, 2013

TRA Docket #11-00144
Consumer Advocate Exhibit
Schedule 1

Piedmont Natural Gas Company
Revenue Deficiency
For the 12 Months Ending February 28, 2013

6-Dec-11
Exhibit 1, Page 1 of 9

Line No.	Category	Consumer Advocate		PNGC		Difference
1	Rate Base	$348,876,988	A/	$338,574,703	A/	$10,302,286
2	Operating Income at Present Rates	$20,493,594	B/	$18,787,892	B/	$1,705,703
3	Earned Rate of Return (Line 2/Line 1)	5.87%		5.55%		0.33%
4	Cost of Capital	7.61%	C/	8.53%	E/	-0.92%
5	Required Operating Income (Line 1*Line 4)	$26,538,001		$28,880,422		($2,342,421)
6	Operating Income Deficiency (Line 5-Line 2)	$6,044,407		$10,092,531		($4,048,123)
7	Gross Revenue Conversion Factor	1.645921	D/	1.655949	E/	(0.010028)
8	Revenue Deficiency (Line 6*Line 7)	$9,948,617		$16,712,711		($6,764,094)

A/ Schedule 2 5.27% 8.86%
B/ Schedule 3
C/ Schedule 9
D/ Schedule 8
E/ Exhibit PKP-1, Schedule 3, Page 2

TRA Docket #11-00144
Consumer Advocate Exhibit
Schedule 2
6-Dec-11

Piedmont Natural Gas Company
Comparative Rate Base
For the 12 Months Ending February 28, 2013

Exhibit 1, Page 2 of 9

Line No.	Category	Consumer Advocate	A/ PNGC	Difference
1	Utility Plant in Service	$713,852,981	$713,852,981	$0
2	Construction Work in Progress	$33,025,962	$33,025,962	$0
3	Utility Plant Capital Lease	$0	$0	$0
4	Limited-Term Utility Plant - Net	$0	$0	$0
5	Working Capital	$30,722,589	$27,201,172	$3,521,417
6	Deferred Maintenance	$0	$0	$0
7	Total Additions	$777,601,532	$774,080,115	$3,521,417
8	Accumulated Depreciation	$ 336,408,892	$336,693,812	($284,920)
9	Accumulated Amort. of Utility Capital Lease	$0	$0	$0
10	Accumulated Deferred Income Taxes	$87,138,706	$93,634,654	($6,495,948)
11	Customer Advances for Construction	$0	$0	$0
12	Contributions In Aid of Construction	$5,176,946	$5,176,946	$0
13	Unamortized Investment Tax Credit	$0	$0	$0
14	Utility Plant Acquisition Adj.	$0	$0	$0
15	Total Deductions	$428,724,544	$435,505,412	($6,780,868)
16	Rate Base	$348,876,988	$338,574,703	$10,302,286

A/ Exhibit PKP-1, Sch. 3, Page 1.
B/ Consumer Advocate work papers.

TRA Docket #11-00144
Consumer Advocate Exhibit
Schedule 3
6-Dec-11

Piedmont Natural Gas Company
Income Statement at Current Rates
For the 12 Months Ending February 28, 2013

Exhibit 1, Page 3 of 9

Line No.	Category	Consumer Advocate		PNGC		Difference
1	Operating Revenues	$189,205,584		$188,671,154	A/	$534,430
2	Cost of Gas	$94,601,622		$94,352,421	A/	$249,201
3	Gross Margin	$94,603,962		$94,318,733		$285,229
4	Operations and Maintenance Expense	$40,282,043	B/	$43,043,964	B/	($2,761,921)
5	Depreciation and Amortization Expense	$19,600,350	I/	$19,664,702	C/	($64,352)
6	Taxes Other Than Income	$9,048,687	D/	$8,785,431	G/	$263,256
7	State Excise Tax	$1,262,419	E/	$1,117,062	H/	$145,357
8	Federal Income Tax	$6,321,392	E/	$5,324,206	H/	$997,186
9	Total Operating Expense	$76,514,892		$77,935,366		($1,420,474)
10	Interest On Customer Deposits	$412,591		$412,591		$0
11	AFUDC	$2,817,115	F/	$2,817,115	A/	$0
12	Net Operating Income for Return	$20,493,594		$18,787,892		$1,954,904

A/ Exhibit PKP-1, Sch. 3, Page. 1
B/ Schedule 5
C/ TAWC Exhibit 2, Sch. 1
D/ Schedule 6
E/ Schedule 7
F/ TAWC Exhibit 2, Sch. 3
G/ TAWC Exhibit 2, Sch. 1
H/ TAWC Exhibit 2, Sch. 6
I/ Consumer Advocate work paper E-DEP

Piedmont Natural Gas Company
Operation & Maintenance Expenses
For the 12 Months Ending February 28, 2013

Line No.	Category	A/ Consumer Advocate	B/ PNGC	Difference
1	Salaries and Wages	$18,068,459	$18,169,143	($100,684)
2	Transmission & Distribution Expense	$5,631,656	$5,653,320	($21,664)
3	Uncollectible Accounts Expense	$57,564	$313,138	($255,575)
4	Other Customer Accounts Expense	$880,193	$850,989	$29,204
5	Administrative and General	$15,526,008	$17,924,187	($2,398,179)
6	Sales Expense	$118,163	$133,187	($15,023)
7	Total O&M Expense	$40,282,043	$43,043,964	($2,761,921)

A/ Dave Peters work papers
B/ MFR 25 Summary Schedule

TRA Docket #11-00144
Consumer Advocate Exhibit
Schedule 5
6-Dec-11

Piedmont Natural Gas Company
Taxes Other Than Income Taxes
For the 12 Months Ending February 28, 2013

Exhibit 1, Page 6 of 9

Line No.	Category	Consumer Advocate		D/ PNGC	Difference
1	Other General Taxes	$5,243		$5,243	$0
2	Gross Receipts Tax	$1,485,070	A/	$1,449,279	$35,791
3	Property Taxes	$5,218,572	B/	$4,966,640	$251,932
4	Franchise Tax	$930,057		$930,057	$0
5	Payroll Taxes	$1,409,745	C/	$1,434,212	($24,467)
6	Total Taxes Other Than Income Taxes	$9,048,687		$8,785,431	$263,256

A/ CAPD Response #25.
B/ Dave Peters work paper T-OTAX1.
C/ Dave Peters work paper TAX4.
D/ MFR25 worksheet Taxes

6-Dec-11

TRA Docket #11-00144
Consumer Advocate Exhibit
Schedule 6

Piedmont Natural Gas Company
Excise and Income Taxes
For the 12 Months Ending February 28, 2013

Line No.	Category	Attrition Amount A/	
1	Operating Revenues	$94,603,962	B/
2	Salaries and Wages	$18,068,459	
4	Transmission & Distribution Expense	$5,631,656	
5	Uncollectible Accounts Expense	$57,564	
6	Other Customer Accounts Expense	$880,193	
7	Administrative and General	$15,526,008	
8	Sales Expense	$118,163	
9	Depreciation and Amortization Expense	$19,600,350	
10	Taxes Other Than Income	$9,048,687	
11	NOI Before Excise and Income Taxes	$25,672,881	
12	AFUDC	$2,817,115	
13	Interest Expense	($9,068,161)	C/
14	Pre-tax Book Income	$19,421,835	
15	Schedule M Adjustments	$0	D/
16	Excise Taxable Income	$19,421,835	
17	Excise Tax Rate	6.50%	
18	Excise Tax Expense	1,262,419	
19	Excise Tax NOL	-	
20	Excise Tax Expense	1,262,419	
21	Pre-tax Book Income	19,421,835	
22	Preferred Dividend Credit	-	
23	Excise Tax	(1,262,419)	
24	Schedule M Adjustments	-	D/
25	FIT Taxable Income	18,159,416	
26	FIT Rate	35.00%	
27	Federal Income Tax Expense	6,355,796	
28	ITC Amortization	($34,404)	E/
29	Federal Income Tax Expense	6,321,392	

A/ Schedule 5
B/ Schedule 4
C/ Schedule 1, line 1 * Weighted Cost of Debt per Schedule 9
D/ TAWC Exhibit No. 2, Schedule 7, Line 36.
E/ TAWC Exhibit No. 2, Schedule 7, Line 11.

TRA Docket #11-00144
Consumer Advocate Exhibit
Schedule 7
6-Dec-11

Piedmont Natural Gas Company
Revenue Conversion Factor
For the 12 Months Ending February 28, 2013

Exhibit 1, Page 8 of 9

Line No.	Category			Balance
1	Operating Revenues			1.000000
2	Add: Forfeited Discounts	-	A/	-
3	Balance			1.000000
4	Uncollectible Ratio	0.0003	B/	0.000308
5	Balance			0.999692
6	State Excise Tax	0.0650	C/	0.064980
7	Balance			0.934712
8	Federal Income Tax	0.3500	C/	0.327149
9	Balance			0.607563
10	Revenue Conversion Factor (Line 1 / Line 11)			1.645921

A/ 12 MTD 9/30/10 ($308,601/$38,139,091)
B/ 12 MTD 9/30/10 ($250,290/$37.886,523)
C/ Statutory Rate

TRA Docket #11-00144
Consumer Advocate Exhibit
Schedule 8
6-Dec-11

Piedmont Natural Gas Company
Cost of Capital
For the 12 Months Ending February 28, 2013

Line No.	Final Capital Structure	Ratio	Cost	Weighted Cost	Tax Deductible
1	Short Term Debt	5.87%	1.59%	0.093%	0.093%
2	Long Term Debt	41.42%	6.05%	2.506%	2.506%
3	Common Equity	52.71%	9.50%	5.007%	
4	Total	100.00%		7.61%	2.599%

Source: Consumer Advocate Exhibit Dr. Chris Klein.